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Wine

EU Wine Reform

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Report Highlights:
In May 1999, the EU published Council Regulation 1493/1999, reforming the Common Market Organization (CMO) for wine. The stated goal of the wine reform is to re-balance supply and demand and re-orient the sector more towards the market.

Includes PSD changes: No
Includes Trade Matrix: No
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European Union (EU) Wine Reform

Introduction

In May 1999, the EU published Council Regulation 1493/1999, reforming the Common Market Organization (CMO) for wine. The stated goal of the wine reform is to re-balance supply and demand and reorient the sector more towards the market. A major aspect of the new CMO's strategy is to support and protect "quality wines produced in specified regions" by setting quality standards taking into account "traditional conditions of production." Subsidies to support the upgrading of vineyard to more marketable varieties also play a large role. In addition to addressing continued over-supply concerns in the EU market, these provisions represent an EU response to changing consumer tastes and the growing popularity of high-quality "new-world" wines produced in places such as the United States, Chile, Australia and South Africa.

The new CMO came into force in August 2000, except for detailed provisions on labeling and protection of terms, which are still in draft form. While the reform is supposed to represent a move away from price support, a significant portion of budgetary expenditure under the new CMO still covers many of the same intervention policies and controls which existed under the old regime. Overall expenditure in the sector has actually increased under the reform with the addition of new payments for restructuring and conversion of vineyards.

Another stated goal of the reform is to simplify legislation in the sector by replacing several older regulations with the new framework legislation. While the reform represents an improvement in this area, provisions remain highly complex and scattered in several different implementing regulations. The purpose of this report is to pull together these main provisions in a single report, along with basic information regarding budgetary expenditure and subsidy payments. References are also given for sources of more detailed information.

Wine Regime Overview

Products

The wine regime covers the following products: unfermented grape juice, grape must, wine of fresh grapes, non-table grapes, wine vinegar and wine-making by-products like piquette, wine lees and grape marc. It distinguishes between two main types of wine: quality wines produced in specified regions (psr) and table wines. Designation of a quality wine psr by member states is based on the area where the grapes are grown, variety, cultivation methods, wine-making methods, natural alcoholic strength, yield and organoleptic (taste) analysis. The production year for all categories of wine runs from August 1 to July 31.

Budget

2001 budget appropriations to support the wine sector totaled 1.154 Billion Euro (see chart). This represents a near doubling of support compared to 1999, the last year completely covered by the old regime. Approximately half of the expenditure is related to supply control measures to support prices - such as grubbing-up of vines, distillation of wine and intervention storage. The increase in 2001 comes from generally higher budget amounts for most line items as well as the addition of a new line item for restructuring and conversion of vineyards.

	2002 Projection	2001 Appropriation	2000 Appropriation	1999 Expenditure
Export refunds	25,000,000	35,000,000	35,000,000	27,356,635
Wine & must storage	52,000,000	52,000,000	51,000,000	41,241,074
Distillation of wine	317,000,000	267,000,000	239,000,000	187,088,501
Distillation of by-products	67,000,000	67,000,000	66,000,000	60,645,867
Distilled alcohol storage aids	226,000,000	190,000,000	149,000,000	129,390,621
Aid for use of must	149,000,000	149,000,000	144,000,000	161,412,672
Abandonment premiums	18,000,000	14,000,000	12,000,000	8,989,376
Restructuring and conversion	422,000,000	380,000,000		
Totals	1,276,000,000	1,154,002,001	696,002,000	616,126,745

Source: EU budget 2001, 2002 draft budget

Production

Planting of vines continues to be strictly regulated and controlled in terms of acreage and allowed varieties under the new CMO. While structural surpluses are less of a problem now than when the last CMO was introduced in 1987, controls remain in place to encourage the production of quality wines while discouraging the production of poor quality, unsaleable product. Member states have a considerable management role, including classifying vine varieties which may be planted and maintaining an inventory of production potential which contains information about varieties planted. Member states also classify areas for wine growing into categories and zones, which are used to make determinations about allowed oenological practices as well as management actions to balance the market (such as granting new planting rights, or carrying out distillation). New plantings of wine grapes are prohibited until 2010 except under certain circumstances. For example, new planting rights for production of a quality wine psr or table wine covered by a geographical indication may be allowed if the Member State determines that production is far below demand. In order to prevent surpluses of table wines, Member states may also set limits for crop yields (hectoliters per hectare) and make producers exceeding this limit ineligible for aid payments.

Member states may also designate areas where producers receive "abandonment premiums" if they agree to permanently abandon vine-growing on a particular area. The member state sets the level of the premium, subject to certain limits. The regulation sets the maximum level of premium per hectare according to average yield. Member states may also grant national aid for grubbing up.

Maximum abandonment premiums

Avg. yield per hectare (in hectoliters)	Maximum premium (in Euro)

up to 20	1,450
20-30	3,400
30-40	4,200
40-50	4,600
50-90	6,300
90-130	8,600
130-160	11,100
greater than 160	12,300

Member states also manage a restructuring and conversion system to convert unmarketable varieties to marketable ones. This is done through grafting, relocation of vineyards and improvement of management techniques. It is not supposed to be used for the normal replanting of vineyards which have come to the end of their natural life. This is rather narrowly defined as "the replanting of the same parcel of land with the same variety according to the same system of vine cultivation." The plans consist of compensation to producers for lost revenue during the conversion period as well as restructuring costs. The EU funds 50% of these costs, with the rest covered by the producers themselves. Member states do not cover any of the costs, except in cases where they wish to support conversion in a larger area than that designated for that member state by the EU. In these cases, the member states may distribute EU payments to a larger number of growers and top-up the payments with national funds so that growers continue to be compensated for 50% of their costs. Member states set the conditions such as size of parcels, time limits, use of replanting rights, and rules regarding the scope and levels of support.

EU expenditure on restructuring and conversion for 2001/2002 is allocated as follows by member state:

Member State	Surface (hectares)	Amount (Euros)
Germany	1,776	13,785,000
Greece	1,028	7,323,000
Spain	23,192	154,160,000
France	12,827	93,019,000
Italy	15,910	116,571,000
Luxembourg	21	167,000
Austria	1,079	7,567,000
Portugal	4,391	29,408,000
Total	60,224	422,000,000

Intervention

Intervention applies to table wines only (ie. not quality wines psr). Intervention consists of payment of storage subsidies and distillation. Private storage aid is available for table wine and grape must through storage contracts. Only technical storage costs and interest charges are covered by the aid.

Private storage aid rates

Product	Euro per hectoliter, per day
grape must	0.01837
concentrated grape must	0.06152
rectified concentrated grape must	0.06152
table wines	0.01544

If storage aid for producers is not sufficient to correct the market, the Commission may decide to use "crisis" distillation. Wine producers are paid a buying-in price by distillers and distillers are paid a distillation aid. Crisis distillation is voluntary and the Commission sets the buying-in price and quantitative limits according to market circumstances. The Commission also supports voluntary distillation to ensure supplies to the potable alcohol sector. This type of distillation is opened every year fall and operated until budgetary limits are reached. The buying-in price must equal an average for the wine year of Euro 2.488 per percent volume. Aid to distillers for voluntary distillation is as follows:

Product	Euro per percent volume, per hectoliter
raw alcohol and spirits distilled from wine	1.751
neutral alcohol	1.884

An additional aid of Euro 0.0336 per hectoliter, per day is paid to distillers for storage.

Some forms of distillation are still compulsory. For example, all wine by-products (such as grape marc and wine lees) must be submitted for distillation for a price no lower than the EU buying-in price or for the production of vinegar. The buying-in price is set at 0.995 Euro per percent volume, per hectoliter. This is a quality-related measure to prevent the production of low-quality wine through over-pressing of grapes. Distillers receive aid for the end product or may deliver it to an intervention agency.

In addition, all wine produced from grapes classified as both wine grapes and table grapes, in excess of the allowed amount to be used for wine, must be also be distilled. The buying-in price for compulsory distillation of wine produced by grapes with a dual classification is Euro 1.34 per percent volume, per hectoliter

Aid to Distillers for distilling wine by-products

Product	Euro per percent volume, per hectoliter
neutral alcohol flat-rate	0.6279

neutral alcohol from grape marc	0.8453
neutral alcohol from wine and wine lees	0.4106
spirits distilled from grape marc	0.3985
wine spirits	0.2777
raw alcohol from wine and wine lees	0.2777

Aid to distillers for distilling wine made from dual-classification grapes

Product	Euro per percent volume, per hectoliter
neutral alcohol	0.7728
wine spirits, raw alcohol or wine distillate	0.6401

Price paid to distillers for alcohol of at least 92% vol delivered to an intervention agency (note: if they have already been paid distillation aid, the price is reduced by the amount of the aid)

Product	Euro per percent volume per hectoliter
Alcohol distilled from wine-making by-products	
-standard price	1.654
-marc alcohol	1.872
-wine and lees alcohol	1.437
Alcohol distilled from wine produced by dual use varieties	1.799

Intervention agencies dispose of alcohol through public auction or tendering for industrial use, exportation to third countries for fuel use or use as bio-ethanol in the EU. Additional aid may be granted by member states if necessary to encourage the distillation of by-products. In some areas, wine-making by-products may be withdrawn under supervision instead of distilled. Note: to take into account aid paid for enriching wine with grape must or sucrose, buying-in prices (for dual-use wine and voluntary distillation) are reduced (subject to some exceptions in cases where aid was not received for the must or sucrose). In cases where the reduction has been applied, the aid paid to the distiller or the intervention agency price paid to the distiller will also be reduced by the same amount.

EU wine-growing zone	Reduction (euro per percent volume per hectoliter)
zone A	0.3626
zone B	0.3019
zone C	0.1811

Aid for the use of must

The EU also provides aid to encourage the use of concentrated grape musts and rectified concentrated grape musts instead of sucrose to increase the alcoholic strength of wine. The aid makes up for the higher cost of using must. Aid for use of grape must or rectified concentrated grape must is set by potential alcoholic strength by volume per hectoliter as follows:

Product and zone where grapes were grown	Euro per percent volume per hectoliter
must produced in CIII(a) and CIII	1.699
must produced elsewhere	1.466
rectified concentrated grape must produced in CIII(a) and CIII	2.206
rectified concentrated grape must produced elsewhere	1.955

There is also aid for the use of wine grapes, must and concentrated must for the production of grape juice or other edible products from grape juice. Some of these funds are also used to fund marketing campaigns and research into new market outlets.

Aid for the use of grapes, must and concentrated must

Product	Euro
Grapes (per 100 kg)	4.952
Grape must (per hectoliter)	6.193
Concentrated grape must (per hectoliter)	21.655

Producer organizations

The new CMO provides for recognition of producer organizations, but does not provide specific funding. Producer organizations are defined as any legal entity composed of producers covered by the wine regulation which has the aim of planning production, promoting concentration of supply, reducing production costs, stabilizing producer prices and promoting good environmental practices. They must be recognized and checked periodically by the member states. Sectoral organizations may lay down marketing rules as long as they do not fix prices or control the market. They may carry out the following activities: marketing, research, development of standard contracts, exploitation of production potential, improving product quality, promoting good environmental practices, including organic farming.

Oenological (wine-making) practices and processes

The EU's highly prescriptive rules on oenological practices deal not only with safety concerns, but also process-based quality standards and fair treatment of growers in different regions. In this aspect, there is not much change from the previous CMO, although some new practices have been authorized on an experimental basis. The establishment of harmonized quality, or tradition-based standards conflicts with the goal of supporting wine-growing in regions with widely different growing conditions. For this reason, the regulation sets out extensive rules on allowed practices, along with a complex set of derogations from those same rules based on weather or growing conditions in different wine-growing areas. The EU also publishes derogations related to specific harvests in specific regions, derogating from requirements that producers would be unable to meet as a result of weather or other conditions. Some practices, which are considered "traditional," are only allowed for wines produced in certain regions. See the annexes of Regulation 1493/1999 and implementing regulation 1622/2000 for the detailed list of approved practices.

In addition, regulation 1493/1999 sets out derogations for use of enrichment and acidification/deacidification by growing zone in the EU. Regulation 883/2001 states that imported wines may be subject to the same derogations as applicable in regions with equivalent growing conditions as those found in the designated zones in the EU. For example, enrichment (the addition of sucrose, concentrated grape must or rectified concentrated grape must) is limited to an increase in alcoholic strength of 2% volume in zone C, but may go as high as 3.5% volume in zone A. An equivalency assessment must be based on proposals submitted to the EU by competent authorities in the exporting country.

U.S. authorities have approved some practices that are not currently allowed in the EU. Some of these prohibited practices are covered by a special derogation for the U.S. and therefore may still be used for U.S. wine shipped to the EU. These practices are found in Council Regulation 1037/2001 of May 22, 2001, which extended existing derogations until the conclusion of a U.S. - EU wine agreement or December 31, 2003 at the latest. Wines produced with other prohibited practices are still not allowed to be imported by the EU, which results in lost sales in the EU for U.S. producers. This issue is under discussion in the U.S. - EU wine negotiations (see Trade section).

Labeling

Detailed implementing rules on labeling, designation, presentation and protection of names under the new CMO have not yet been published. Until a new detailed regulation is published, some of the provisions of the old regulation 2392/89 are still in force, along with the detailed rules found in 3201/90. Regulation 881/98 on protection of certain traditional terms associated with wine and liqueur produced in a specific region (such as ruby, aged 5 years, or vintage) has never entered into force since its publication in 1998, and is expected to be incorporated into the new labeling regulation. The provisions of 881/98 would have restricted access to the EU market for U.S. wines and liqueurs with labels (including pre-existing trademarks), using any of the EU's self-designated "traditional terms". The new regulation on labeling is expected to be published in October/November 2001.

The objectives of EU rules on wine labeling include ensuring the "smooth operation of the market" and protection of the interests of producers as well as protection of the interests of consumers. These additional objectives are reflected in the wine labeling rules which are designed to protect and promote domestically-produced EU wines. Regulation 1493/1999 sets out a list of information that must appear on wine labels as well as a positive list of allowed optional information. Current rules prohibit the use of any term not explicitly allowed. Lists of terms are found in Regulation 3201/90, which also sets out allowed terms on imported wines. Labeling issues are also under discussion in the U.S. - EU wine negotiations.

Trade

Since the WTO Agreement on Agriculture entered into force, wines and products are assessed fixed tariffs, except for juices and grape must, which are still subject to the entry price system and variable duties. For juices and must, the import price of the product is verified by checking the actual price of the consignment or by using a flat-rate import value calculated by the Commission on the basis of price quotations for the same products in the countries of origin. If imported products are to be made into wine (only allowed under derogation), importers must lodge a security and later show proof that the products were properly labeled. Imports of products covered by the regulation may be subject to an additional import duty if Agriculture Agreement conditions for a Special Safeguard Action are met.

All wine, grape must and grape juice imports (consignments over 3,000 liters of wine or 3,000 kgs of grape juice or must) require an import licence. Wines, grape juice and grape must may also benefit from export refunds, which vary based on destination. Destinations include Africa, Asia, eastern Europe (including the CIS) and Western Europe. Export refund rates for different products and destinations are found in Regulation 569/2000. Wines which receive export refunds must meet member state quality standards and show proof that they were approved by a tasting committee appointed by the exporting member state.. There are also refunds available on the added sugar in grape juice and grape must through sugar and processed products regimes. All exports require an export licence.

Imported wines must be accompanied by a certificate signed by the competent authority in the exporting country to show that they meet EU regulations as well as an analysis report by an official laboratory recognized in the exporting country. This certificate and analysis report must be on a single document, called the VI-1 form. The U.S. has a special derogation which allows U.S. exporters to complete only the sections of the VI-1 form regarding the actual alcoholic strength by volume, the total acidity and the total sulphur dioxide content. Also, wine producers in the U.S. may fill out the certificate and analysis reports themselves as long as they have received approval to do so from US authorities. These special conditions for the US will remain in force until the U.S. - EU wine agreement is completed but no later than Dec 31, 2003.

Negotiations towards a new bilateral U.S.-EU wine accord began in June, 1999. To date, discussions have focused primarily on differences in oenological (wine making) practices and the procedures to approve new practices. The United States has proposed full mutual recognition of approval systems but the EU wishes to leave open the possibility for opposition to any new practices approved by the other party. Another issue under discussion is the use of so-called "semi-generic" names (such as Burgundy or Champagne) in trademarks and label information. The EU considers such terms to be EU-proprietary geographical indications. In addition, the U.S. proposes to reduce tariffs and subsidies in the wine sector.

Legislation references

The main provisions of the reformed CMO for wine are found in Council Regulation 1493/1999. Since this regulation was passed in May 1999, the Commission has passed several implementing regulations setting out detailed rules on different aspects of the CMO. These include Regulation 1227/2000 regarding production potential; Regulation 1607/2000 regarding "quality wine produced in specified regions"; Regulation 1622/2000 regarding oenological (wine-making) practices; Regulation 1623/2000 regarding market mechanisms (intervention); Regulation 2729/2000 regarding controls in the wine sector; Regulation 883/2001 regarding trade with third countries; Regulation 884/2001 regarding documents and records; and Regulation 569/2000 on export refunds. An additional implementing regulation regarding labeling (including protection of terms) is still under discussion. Until this regulation is published, the old regulations (Council Regulation 2392/1989 and Commission Regulation 3201/1990) remain in effect.

Legislation can be found on the internet at the EU's official website: http://europa.eu.int/eur-lex/en/index.html